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Tax Incentives Targeted to Distressed Areas

Committee on Ways and Means

U. S. House of Representatives

Statement of Kenneth A. Gibson

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Thank you for the opportunity to submit a statement for the record regarding tax incentives targeted to distressed areas and urban enterprise zones.

First, the identification and definition of distressed areas should be contingent upon such factors as unemployment, number of residents below poverty level, number of AFDC families, number of available jobs per 100 population, number of jobs lost, and other poverty and unemployment data.

The tax incentives most likely to aid in the revitalization of a distressed area are those most affecting businesses within the area and businesses which potentially would locate to that area. While a reduction in corporate income taxes and new

jobs credits might afford some modicum of incentive, they would only benefit rather large corporations which show taxable profits. The majority of new jobs in this country are created by small businesses. Most small businesses do not show any profits for the first few years of operations; therefore, such tax incentives are of minimal use in creating new jobs and revitalizing urban areas. Even if the tax incentives were extended to proprietorships, partnerships and Subchapter S corporations, these entities would not be likely to show the taxable profits which would enable them to benefit from those incentives.

Frankly, the more important tax incentive involves property tax breaks and those can only be granted by municipalities, not by the federal government. Property taxes impact all businesses and are likely to be one of the major factors in deciding where a business will be located. Site decisions are also based on factors such as the municipality's ability to provide basic services (police, fire, sanitation) and adequate infrastructure services (good roads, bridges, sewers). A business is not going to locate or expand in an area where the roads are so poor that it cannot ship its goods. The availability of a trained, able work force is also an important factor. In these respects, the federal government can be immensely helpful.

The federal government should implement an enterprise zone program to revitalize distressed areas. That program should:

1. Provide reimbursement to local governments in enterprise zones which grant property tax abatements.
2. Provide special funding to local governments in enterprise zones to pay for added police, fire, and sanitation services, as well as infrastructure repairs.
3. Fund extensive job training programs and educational enrichment programs to ensure a trained, educated, high quality labor pool.

If properly implemented, this enterprise zone program would work well and achieve its goals. Mere tax incentives are a shoddy, poor substitute for urban aid and will not ameliorate the problems confronted by ailing urban areas or by industry and commerce.

One might assess the revenue implications of proposals to provide tax incentives for distressed areas in terms of what they replace. In other words, the federal government would be saving money in the short term by only sacrificing nominal revenues lost by tax incentives as opposed to the larger costs of real and meaningful urban aid. In the long run, such savings are folly and must be measured in the human costs incurred by reduced urban aid. Tax incentives can never take the place of direct spending in addressing problems of distressed areas.

The fairness of using special tax incentives in a limited number of distressed areas is the same as the fairness of having unemployment, welfare, substandard housing and the plethora of other urban problems in a limited area.

No Legislator should be fooled into thinking that tax incentives will even put a dent in the problem of economic revitalization of urban America. Giving local governments the tools and funds to solve their own problems is the only serious solution to this problem.